Governance Support Package

Produced in collaboration with SCVO

Scotland's International Development Alliance

4th Floor, Hayweight House
23 Lauriston Street
Edinburgh, EH3 9DQ, UK
tel: +44 (0)131 281 0897
e: admin@intdevalliance.scot
w: www.intdevalliance.scot

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+44 (0)131 281 0897 | admin@intdevalliance.scot | www.intdevalliance.scot

Finances

Managing money is not just the job of the treasurer, all the board are collectively responsible for the finances of the organisation. They have to make sure that there are appropriate financial structures, controls and processes to ensure the financial affairs of the organisation are conducted properly and reported accurately. This is particularly important when working through partner organisations to ensure transparency and accountability to stakeholders.

Planning ahead - budgeting, reserves, fundraising strategy

Budgeting

A budget is an estimate of the expenditure you expect to incur by carrying out a plan of action and the income that you hope to generate to pay for this expenditure.

It can be drawn up to cover particular activities, or a period of time, usually a year. The budget helps you to see exactly what things will cost so that you can make sure you have enough money to carry out your plan.

The process of preparing a meaningful and useful budget is best undertaken as an organised group exercise with trustees, programme and finance staff working together, where possible. Budgets should be clear, so that other people can pick them up and understand them easily. Writing a budget involves answering a number of questions:

- What objectives are we trying to achieve?
- What activities will be involved in achieving these objectives?
- What resources will we need to carry out these activities?
- What will these resources cost?
- Where will the funds come from? What will the source be?
- Is the result realistic?

Don't forget full cost recovery – remember to include your core costs such as rent, utilities, staff related costs such as recruitment and training as well as governance costs for board meetings and AGMs.

Further Resources: Humentum's budget worksheet example

Further Resources: Department for International Development (DFID) - budget template for overhead costs

Reserves

Many organisations have only one or two major sources of income and these are not always guaranteed. It is crucial therefore to ensure there are sufficient reserves to tide an organisation over while alternative sources of funding are secured, or to allow an organisation to wind up while meeting its obligations to staff and service users, if existing sources of income are lost. In addition, voluntary organisations that send or receive money abroad are also subject to volatile currency markets, so need to have reserves in order to mitigate financial risk. But you must be able to justify the level of reserves that your organisation holds. This is especially true for charities where a high level of reserves could be seen as not properly directing the resources of the charity to the furtherance of its charitable objectives.

Further resources: OSCR's Charity Reserves Factsheet

Some funders will not provide funds to an organisation with, as they see it, 'too much money' in reserve. When applying for funds, you should establish funders' policy on reserves and be prepared to share your reserves policy.

Fundraising Strategy

Successful fundraising doesn't involve a magic formula, it relies on hard work and people who are well prepared. It is vital to have a strategy in place. The board should ensure that any fundraising is carried out ethically and in line with your organisation's purpose and values. The board should have a fundraising strategy consistent with regulations and guidance on fundraising that complies with the Code of Fundraising Practice and addresses the following questions:

- What funds do you need to carry out the activities you have planned in your strategy?
- Where will you get those funds?
- How will you ensure that the funds do not dry up, and that you have sustainable sources of funding?
- What will you need to do to raise the funds that you require and what resources will you need?

The Alliance's Fundraising Guide has more in-depth guidance on fundraising

Watch out for exchange rates when applying for funds for work that will take place internationally – make sure you know which funders will, or won't, cover a shortfall, and which funders will expect funds back if the exchange rates are good and you have some left over at the end of your project.

Keeping control - internal controls, transferring funds abroad, bribery policy

Internal controls

Having strong internal financial controls can help to prevent mistakes, confusion or even fraud and theft. Internal financial controls show your stakeholders (members, funders, regulators and beneficiaries) that their money is safe and wisely spent. A financial control policy should set out who is to do what, and when and how, and should be followed without exception. Your systems and policies should also provide guidance to partner organisations who may be mainly responsible for disbursement of funds and financial reporting.

CASHFACTS from Community Accountancy Self Help provide financial guidance specifically for small charities and small groups.

Transferring funds abroad

It is important that your board ensures that funds are going where they're meant to. The safest method to transfer money internationally is to use the banking system. If your organisation chooses to use a different method such as Money Service Businesses, make sure you can show the reasoning for your choice. The board should carefully consider the amount of money held locally, your organisation could lose money if the local banking system collapses, or if exchange rates drop.

Both OSCR and the Charity Commission strongly advise against transporting money in person. Cash above a certain limit that has not been declared may also be seized by the UK Borders Agency.

For more information on holding, moving and receiving funds safely, see the Charity's Commission's Guidance.

Bribery

Charities and voluntary organisations must safeguard themselves against corruption and financial crime in order to avoid financial and reputational damage. Due diligence checks on all partners, a full risk audit and anti-corruption controls are all essential for organisations working overseas.

For more information read the Bond Anti-Bribery Principles and Guidance for NGOs.

The Bribery Act 2010 created an offense of "failure of commercial organisations to prevent bribery". This is covered in Section 7 of the Act and is designed to encourage organisations to put in place effective anti-bribery procedures. There is a defence if the organisation can demonstrate that it had "adequate procedures" in place designed to prevent persons "associated" with it from undertaking such conduct. Trading by an NGO or charity and any service for which fees are charged could be considered as 'commercial activities'.

Annual reporting

Reporting and keeping accurate accounts is a vital element in running your organisation, ensuring that you are making the most of your income. Exactly what you will need to do will depend on the scale of your operation, your legal status and whether you are a charity. Your board has a responsibility to report on the financial position of your organisation if your organisation is a charity or is incorporated, this is a legal requirement.

If your organisation is not a charity and is unincorporated, the responsibility to report is more moral than legal. However, it is common for funders to require the production of proper accounts as a condition of funding.

Your organisation should keep proper financial records throughout the year, with the end of year accounts normally produced at the end of a financial year. Many organisations use the public sector financial year (April-March), but an organisation can choose its own financial year, depending on when it was set up, or can follow a different established one, e.g., the European Union financial year (January-December). The Office of the Scottish Charity Regulator (OSCR) has detailed information and guidance for registered charities about annual reporting and accounts to make sure they follow charity law requirements.

SCVO

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